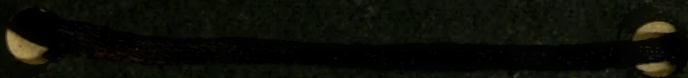


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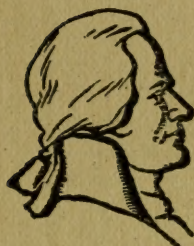
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[Modern business talks]

PLANNING YOUR BUSINESS



**MODERN BUSINESS
TALK No. 10**

**ALEXANDER HAMILTON INSTITUTE
NEW YORK**

Planning Your Business

Number Ten of a Series of Modern
Business Talks Prepared by the
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READING ASSIGNMENT

NUMBER TEN

"Neither advertising nor salesmen can bring success to a business unless its plan of campaign is right."—Page 226, Chapter XV, Volume 5 of the MODERN BUSINESS Text.

(1) Read this Talk on "Planning Your Business."

The human element is always important in the conduct of business. The successful planner is sometimes credited with possessing special gifts of penetration, whereas in fact he simply exercises common sense and seeks to profit by the experience of others. Success in business implies ability to adapt means to ends and the possession of energy to carry out the plans adopted.

(2) Read Chapters XII to XXI, (pages 173 to 335 inclusive) of "Marketing Methods" which is the fifth volume of the MODERN BUSINESS Text.

(3) Study the situation described in Problem 5, and send in your solution for criticism.

The matter of regularity in the reading of the Modern Business Course is too important to be overlooked. It is surprising how easily progress is made when the work is done systematically. Occasional study-spurts cannot take the place of shorter study periods regularly recurring. Do not permit yourself to fall behind.

"To have ideas is to gather flowers; to think is to gather them into garlands."

—MAD. SWETCHINE.

Planning Your Business

"The manufacturer must first select his market and then find out how to reach it."—Page 228, Chapter XV, Volume 5 of the MODERN BUSINESS Text.

It is true of any business, whether it be large or small, that in order to be successful, it must be carefully planned. At times such planning is a matter of gradual development, as when a merchant or manufacturer has only his own experience to guide him. Under circumstances of that nature, ability is put to a severe test. Certainly, without it failure is a foregone conclusion.

It was during a discussion of this subject by a few business men on a certain occasion that the story was related of a successful manufacturer of men's wear specialties that today are being sold in nearly every haberdashery in the country. The rapid progress of this business is largely due to the early discovery of a practical marketing plan. The firm is a partnership and the two partners are still young men.

A Modest Start

The history of the business is substantially as follows:

A little over five years ago the firm sold its first bill of goods—and it was a very modest one. At the present time the sales of a single day usually exceed those of the first six months. At first it was a hard pull and more than once the partners were on the point of quitting. The business is on the safe side now, however, and the owners are taking things a little easier.

The idea of manufacturing the first article was that of a foreman in a shirt factory. It took him nearly a year, however, to get ready to do business, and in order to obtain the necessary working capital he was compelled to take a partner. A friend of his had a little money, and between them they succeeded in raising about \$1,500—more than enough, they thought, for carrying the new business thru its initial and unprofitable stage. After a while their little shop was ready and—as had previously been arranged—the new partner went on the road to sell the goods to the retail trade. It is true, this man had no previous experience in selling, but so confident were both men with regard to the success of their specialty that never for a moment did they doubt his ability to get orders for all they could make. They soon found, however, that they were facing serious difficulties. The jobbers did not seem to care at all for their line, nor were the retailers much more anxious to put in a supply. Up to that time the partners had not given any serious thought to proper marketing methods, and with the exception of a crude circular, which they

got up between them, they had done no advertising whatever.

Three months of this sort of effort convinced the partners that they were on the wrong track and made them realize that something would have to be done or they should soon be out of business altogether. While they were still groping for a remedy, the partner who had been on the road to sell the goods suddenly announced that he had reached the conclusion that the business was a losing venture and that, in any case, selling goods on the road was not his special calling.

As this partner was anxious to be let out of the business, his associate arranged to buy his interest for a small amount which he succeeded in borrowing from a reluctant relative. He, at least, had not yet lost faith in the business, tho he realized full well that other and better means of marketing the product would have to be found. He experimented a little further on his own account, but eventually was forced to stop altogether, as the results of his selling efforts were disheartening.

A New Partner

It now looked decidedly dark for the manufacturer, and he had about become convinced that nothing remained for him but to give up the whole thing. But just then he accidentally met a young traveling salesman for a New York collar manufacturer who visited the town on business. The two men struck up an acquaintance and in the course

of their conversation the manufacturer related his experience of the past year. The other man displayed a great deal of interest in the narrative and asked permission to see the "factory" where later several hours were spent in examining the shop and its meagre equipment.

"Look here," said the visitor when the inspection was ended, "I believe you have a real good proposition and I wouldn't object to trying my hand at the selling end. I have a little money saved up and if we can arrange satisfactory terms, I'll join you in the enterprise."

The other man secretly pitied the young fellow and was debating in his own mind whether, in the light of past experience, he could conscientiously permit him to invest his hard-earned dollars in the apparently doomed-to-failure enterprise. But the young man's enthusiasm proved contagious and before the two men parted that evening, working arrangements had been drawn up between them looking to the formation of a partnership. Two weeks later the new partner was on hand to assume his new responsibilities.

He began by improving the appearance of the goods themselves, then he insisted upon improving the cartons and labels. This took some time; but while it was going on, he was calling on jobbers in nearby centers and securing their cooperation—a task at which his predecessor had utterly failed. His practice was to take one small territory at a time, do some local newspaper advertising and visit

the retailers for the purpose of placing small consignments so as to take care of the demand created thru local advertising in conjunction with the unique and attractive window displays which he arranged. As soon as one territory was covered so that orders began coming in, he attacked the next. And this he kept up single-handed for an entire year. At the beginning of the second year the business had increased to a point where it became necessary to enlarge the factory, buy additional machinery, put on six more girls and two salesmen.

Just then, however, something happened which threatened to dash the partners' hopes to the ground.

Beginning All Over

One stormy October night a fire destroyed the little factory and the accumulated stock. Hardly anything was saved. The amount covered by insurance was very small and the partners found themselves virtually penniless. But tho the senior partner was discouraged, his associate never winced. Before the smoke had cleared away from the ruins of the factory, he had a rough plan ready and was asking for estimates from local contractors. At ten o'clock the next morning he was at the office of the president of the local bank armed with his order book and with a record of the year's business. Before noon he came back to report that the bank would provide the necessary money as soon as the directors had gone thru the formality of passing upon the loan.

One month later the factory was running again, even tho under difficulties, but within three months the business was actually in better shape than it had been before the fire. From that time to the present the partners have had no serious setbacks, tho some of the lessons which their experience has taught them have proved rather costly.

Skill in determining markets and methods is salesmanship of a high order whether or not it is linked with personal sales work. Its possessor usually becomes a leader in business.

In Chapter XII—the first of our present reading assignment—the author discusses the status of the jobber—that middle link between manufacturer and retailer whose usefulness has so often been questioned. It is easy to understand why large retailers, such as department stores and chain stores, prefer to pass the jobber by and deal direct with the manufacturer; it is equally easy to comprehend why a small retail store finds it convenient to avail itself of the jobber's facilities for selling in small quantities and on short notice, even if in so doing the retailer has to pay a slightly higher price.

The examples quoted in this chapter and in the following (Chapter XIII) afford an insight into the entire jobbing situation which involves that of the "private brand," together with the many questions

which this subject has raised and is still raising among manufacturers and dealers. Among such questions are those of available substitutes for the middleman, chiefly cooperative buying and direct selling. To this interesting subject an entire chapter is devoted (Chapter XIV). Little remains to be said on the subject after the discussion given it in these chapters.

Price versus Quality

The success of the partnership venture related in the preceding pages was no doubt mainly due to the selection of a good marketing plan. Yet, unless also the product had been right, it is not to be supposed that the business would have achieved permanent success. A fundamental principle of successful marketing is right quality of material and workmanship. Failing this, the enterprise is destined to enjoy but a brief existence.

A case in point is that of a manufacturer of office supplies and filing devices in a Pennsylvania town. The enterprise had an auspicious beginning. Its originator—an intelligent man of foreign birth—had set for himself a high standard of quality of material and workmanship, and the product of his shop was equal to the best on the market. But he had failed to take into consideration the fact that a sufficient market for quality-goods cannot be developed over-night. So his small capital dwindled from week to week, and altho orders were increasing, the increase was not rapid enough to win

in the race with the depletion of his funds. Discouraged and with no prospect of overcoming the conditions surrounding him, he decided to give up the unequal struggle, sold his little plant for barely enough to settle with the bank, and returned to the fatherland.

The new owner analyzed the situation in his own way and reached the conclusion that the former proprietor had followed a wrong policy. He had paid too much for his materials and had employed too expensive help. Why use carefully selected, seasoned and kiln-dried lumber when ordinary cheap lumber would do? Why spend \$1 for labor where sixty cents would give almost the same result? And so the new owner went thru his factory from cellar to roof, cutting out what he believed to be needless expense in his efforts to lower manufacturing costs. The factory hands were put upon a piece-work basis and advertising was reduced to almost nothing. He would base his appeal for business on low prices. That was to be *his* marketing policy.

The plan appeared to be successful, for the next few months showed a very gratifying profit. But then, as might have been expected, trouble began. Complaints from customers charging inferior goods and defective workmanship began coming in. Very soon the salesmen in the field began to complain that they were spending too much time in straightening out difficulties and adjusting disputes. After a short time of this, the salesmen lost faith in the product, and with their faith went their enthusiasm.

From this point on, it was a case of sliding down hill faster and faster. The owner finally saw his mistake and made an earnest effort to check the downward movement. He set to work improving his product both as to material and workmanship, but it was too late. The market was closing against him, and with a disorganized selling force and increased competition, the unwise manufacturer was compelled to close his doors.

There is no doubt, as the author points out in Chapter XV of our assignment, that a careful study of the product is one of the first essentials of a successful marketing plan. We can readily see that the former owner's appeal to his market was one of quality, while the latter's was one of low price. Both appeals might have been successful under different circumstances.

Finding Your Market

Just as important as a study of your product is a study of the market itself. Where is the market? Of what class of people is it composed? When and how may the prospective consumer be found? Usually that is a big enough problem for any manufacturer to grapple with. Into this problem, moreover, advertising enters largely. You may easily be spending good money in attempting to develop a market where no market really exists. When large-scale advertising is a part of such marketing plan, it is easily seen that expensive mistakes may

readily be made. Chapter XVI is devoted to a study of the market and will be found especially interesting.

Sometimes a manufacturer displays keen judgment in his search for a market. Thus a few years ago a tobacco manufacturer approached the management of the American Baseball League in a large eastern city with a proposition that he be permitted to erect an advertising sign near the grand stand, midway between the home plate and first base. The sign was to be long and relatively low. A world series with the team of another large city was shortly to be held, and the manufacturer expressed a desire to get the name of the tobacco before the crowds which were expected to attend the series. The baseball manager, not caring especially for such a sign, put a high—and as he thought, prohibitive—price on the privilege, but to his surprise the tobacco company promptly accepted the manager's terms. This was considered all the more remarkable when it was observed that the sign when erected could be seen by only a part of the spectators.

But that the tobacco company knew what it was doing became evident a little later. For when in due time the moving pictures of the game were displayed in thousands of theatres thruout the country, the tobacco sign occupied a prominent place on the screen. In fact, it was the most conspicuous object upon which the eyes of the audience could rest. No record is available of the increase in sales traceable to this advertising, but that the

latter was worth all it cost, and that it served to extend the market for the tobacco company's product, no one doubts for an instant. In view of this, the cost of the advertising sign was, of course, insignificant. The sign proved an effective means of creating consumer demand and of inducing retailers everywhere to stock the advertised brand of tobacco.

Successful marketing of a commodity is often found in a departure from conventional methods. New avenues are always open to the man of vision and concentration.

Into a study of this subject enter moreover both the consumptive power of the market and the best way to reach it. In that connection, the question of trade channels naturally arises. With these the author deals in Chapter XVII in which he discusses the advantages and disadvantages of the various marketing channels. Perhaps no phase of the entire subject of marketing is of greater importance than that covered within these two short chapters.

The Question of Selling Price

But in addition to finding and supplying his market, the manufacturer has a problem to solve in determining prices and in preventing retailers from entering into destructive price-cutting.

Of late years the question of price maintenance has become a vital one indeed, since it has been made the subject of judicial investigation. May a manufacturer fix the price at which his goods are to be sold to the public or has he no such right? That is a query which in view of a recent supreme court decision appears to have received a final negative answer. After presenting in Chapter XVIII the elements entering into a complete marketing campaign, the author in Chapters XIX and XX discusses in an instructive and impartial manner, the subject of price maintenance.

The Price-Cutting Evil

Some time ago, the maker of a popular brand of underwear was telling his woes to a Congressional Committee. He said:

Price-cutting is a disease. It's just like an epidemic. A Massachusetts retailer cut the price of our fifty-cent garment one cent. A second protested to us that soon he, himself, would make a deeper cut; and a third not long afterward telegraphed: "Your goods advertised by competitors at thirty-seven cents. Have met price." The strife, backed up by sensational advertising, went further, and before it finished, it extended largely thru New England.

On the basis of twenty-five percent as the cost of doing business, I had computed that one of the dealers in a single day in this strife in selling 3,600 of the fifty-cent garments at twenty-seven cents each, and 1,200 of the one-dollar garments at sixty-five cents, lost \$780. Another dealer who sold 100 dozen of these goods at a loss of \$85, in his excitement

stirred up by the fight, wrote to us: "Sell us 1,000 dozen of these goods at \$1.75 per dozen." (The right price for this is \$4.12½.) This would have been lowering our price to retailers \$2.37½ per dozen. We have never been able to determine just what line of reasoning he followed in asking us to carry out his end of a cut-rate war—to donate over \$2,000, and injure our trade-mark and every retailer.

It is not only in the clothing business that the question of price maintenance has made itself felt. The retail druggist has been made to feel it, if possible, even more accutely.

There are "chain" drug stores as there are chain grocery stores, and price-cutting is going on in the one class just as it is in the other. It is a common thing to see displayed in the windows of drug stores one-dollar articles labelled seventy-nine cents, fifty-cent articles at thirty-nine cents and so on. Testifying before the Congressional Committee on this subject, a representative of the independent retail druggists declared: "We feel that under present conditions monopolies are being formed thru the chain stores which will drive us out of business." And with this view the representatives of other retailers concurred. "But," one of them added, "it takes a long time for the retailer to wake up to his own interests."

This, however, raises an interesting question: Are the advocates of price maintenance really serving the public's interests? Or is it contrarywise? On the whole, is the consumer better served by the chain store selling a dollar article for seventy-nine

cents? Congress was unable to answer that question and passed it on to the Federal Trade Commission for an answer. The considerations of this committee are necessarily of vital concern to every business man. A careful analysis of this interesting subject which the author presents in Chapters XIX and XX of the current assignment will enable you to decide for yourself where your sympathies lie in the matter.

The final chapter in the assignment (Chapter XXI) answers some questions often asked with regard to modern selling methods as a cause of higher prices for commodities. "Advertising" someone says, "is expensive and must be paid for by someone. Is it not a fact that the consumer pays for it in the form of higher prices for goods?" So also with regard to the employment of traveling salesmen: "Do they not necessarily increase the cost of selling and thereby place an additional tax upon the user of the goods?" The entire competitive system of doing business is often assailed as unscientific and injurious, and many would abolish it altogether. The fallacy of such reasoning is exposed in this chapter and much interesting information bearing upon the subject is also found therein.

The whole subject of marketing is so important to a man engaged in business, that no part of the Text dealing with it can be slighted. Not only, however, is the subject important, it is also exceedingly interesting. The reading of the assignment, instead of being a tax, will prove a real pleasure.

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